Flinders Emerging Companies Fund

Monthly Update: October 2023

FLINDERS
Investment Partners

Performance *(after all fees and expenses)*	1 Month (%)	3 Months (%)	1 Year (%)	3 Years (% pa)	5 Years (% pa)	Since Inception^ (% pa)
Flinders Emerging Companies Fund *	-6.48%	-9.65%	-3.48%	-1.24%	3.51%	6.72%
S&P/ASX Small Ords Accumulation Index	-5.45%	-10.45%	-5.10%	0.52%	2.55%	6.31%
Net Value Added *	**-1.03%**	**0.80%**	**1.62%**	**-1.76%**	**0.96%**	**0.41%**

^ Inception date is 30 September 2015. Past performance is no indicator of future performance. Information relates to the Flinders Emerging Companies Trust Class B. Source: Citigroup

Investment Objective

Exceed S&P/ASX Small Ordinaries Accumulation Index by 3% pa (after-fees) over rolling 3 year periods

Investment Time Frame

5 years

Portfolio Managers

Andrew Mouchacca and Richard Macdougall

Risk Profile

High

Distribution Frequency

Half Yearly

Minimum Investment

$25,000

Fund Size

$140.6m

APIR Code

ETL0449AU

M-Funds Availability

Code FEC01

Responsible Entity

Warakirri Asset Management Ltd

Research Ratings

Lonsec: Recommended
Zenith: Recommended

Platform Availability

AMP North, BT Panorama, FirstWrap, HUB24, IOOF, Macquarie Wrap, Mason Stevens, MLC, Netwealth, Powerwrap, Praemium, uXchange, Xplore

Further Information

www.flindersinvest.com.au

- **Bond yields rise, stocks buckle**
- **Geopolitical issues add another layer of uncertainty**
- **Economic news still good!**

Equity markets had a difficult month in October with bond yields rising sharply, oil prices reaching year highs and accelerated tensions in the Middle East. Smaller companies underperformed large with the ASX Small Ords Accumulation Index falling 5.5% over the month. Small industrials were particularly weak falling 7.0% and small resources comparatively better, only falling 1.0%.

Sector moves reflected the rising rate backdrop. Consumer Discretionary and IT sectors fell close to 9% each, Financials (fund managers in particular) fell 12% and the Energy sector fell 9% due to a sharp decline in thermal coal prices during the month. At the other end of the scale, Consumer Staples rose 2% and Materials only dropped 1%, largely due to gold stocks outperforming.

Global markets were also grim. The US performed better than most with the Dow Jones down only 1.4%, the S&P 500 down 2.2%, Nasdaq 2.8% and a long way last, the Russell 2000 small cap index down 6.7% (yes, still a recurring global theme – and now down 17.0% in the past quarter). Euro markets were generally down 3-4%, and Asian markets worse again with Korea winning the misery award, dropping 7.6%.

The bond market was the villain. A combination of solid US growth figures, rising oil prices, and Middle East fighting saw the US 10-year yield rise from 4.54% at the beginning of the month to touch almost 5.00% late in October before finishing at 4.84%. The Australian 10-year tracked a similar path. Continued pressure on the AUD saw it bottom at US$0.6288.

Commodities were mixed. Gold had a strong month, putting on 7.3% and iron ore continued to defy poor Chinese economic data by rising 2.1% - it's now risen 48.8% for the year and considerably more than that in Aussie dollars. Base metals eased and the thermal coal price was smacked 22.9% and is now down 69% year to date.

The small cap market remains thin, but liquidity is especially light outside the ASX 200. Stocks have de-rated significantly and as we've been pointing out for some months now, valuations are looking more and more attractive for many companies that are exhibiting good growth, being managed well and have solid balance sheets.

The current round of AGMs has seen board and management comments that are cautious – as one would expect with interest rates still having potential upside. But that's partially because the economy is still growing, and in some sectors, growing solidly. September retail sales were surprisingly good, employment remains strong and house prices still high.

Investors have high cash levels and with term deposit rates attractive, it's easy to understand caution when the equity market is slipping. However, if we get a 'traditional' late year rally, small-caps could move very quickly.

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Performance Review

The Fund returned -6.48% in October, 1.03% below the benchmark return of -5.45%.

Key Contributors: Trading updates around AGMs often lead to more volatility in stock performance than actual results. It is usually a time when companies have a better bead on trading trends for the December half than they do when they release results in August. Suffice to say that in a portfolio of 38 stocks, we got a bit of both positive and negative. Transit and tourism operator, **Kelsian (+5.1%)** had performed poorly following its FY23 profit announcement, but bounced back in October following AGM comments that the newly acquired US bus businesses were performing well, tourism activity was still strong and the ramp-up of the new Sydney bus contracts had improved with greater staff (driver) availability. The company has plenty of growth opportunity and is still trading at a modest valuation.

The strength in the gold price over the month helped our three gold holdings, **Gold Road Resources (+17.0%)**, **Bellevue Gold (+4.3%)** and **Ramelius Resources (+15.3%)**. As well as a supportive commodity price, Gold Road and Ramelius posted solid September quarter production reports and Bellevue's commissioning of its new project had its first gold pour during October, giving confidence that they are on track to meet forecast ramp-up of production.

Medical device consumables manufacturer, **Trajan (+15.2%)** recovered after a poor August. While there has been no new news since the company's profit release in August, the company hosted an investor day in October which highlighted its growth opportunities and a greater understanding of its strong position as a supplier of products into the medical analysis industry. Possibly of greater influence on the share price was an overhang of stock being cleared early in the month which led to a recovery in the days following.

Key Detractors: The most significant detractor to performance over October was debt collection and unsecured lending group, **Credit Corp Group (-37.7%)**. The company has a growing collection business in the US but has recently been subject to higher than expected delinquencies on its collection book. In a conservative step, the company took a $45m impairment of its US book and downgraded its forecast earnings for this year by $10m (11%). This was enough to hit the stock by 30% (or $360m of its market value) on the day of the release. However, in subsequent conversations with management, it is clear that pricing of debt books has improved markedly over recent months, such that even on the higher level of delinquencies, they are comfortably above the company's hurdle return (we estimate at least 15%). This has not been included in management guidance. We increased our holding on the day and expect a solid recovery in the US business and improving returns from its domestic lending business.

Auto parts wholesaler and accessories retailer, **Bapcor (-21.5%)** had a disappointing trading update in the month. Lower than expected returns from its Autobarn retail outlets and higher costs in parts distribution led to downgrades for both this year and next. While the restructuring taking place in the business will eventually provide benefits, the quantum and the timeframe will certainly lead to lower than anticipated margins. Consequently, we exited the stock during the month.

Diagnostic and therapeutics developer, **Telix Pharmaceuticals (-22.5%)** fell following the release of a ProstACT SELECT study. The dramatically improved safety profile was overshadowed by a weak initial prostate specific antigen (PSA) response. In a separate announcement, the company's quarterly results showed that sales of their ILLUCIX product continues to grow well quarter on quarter and continuing to take share from the incumbent product Pylarify (Lantheus).

Diversified funds management group, **Pinnacle Investment Management Group (-14.0%)** was soft on the weaker equity and bond markets in September and October. Monthly mark-to-market attempts is not an ideal way to look at an investment group that ranges from equity, debt, property, infrastructure and alternatives in domestic and offshore markets. Let alone different styles. Investment performance across the group is good and retail flows will improve once markets recover.

Performance Attribution^		Key Portfolio Positions^
Top 5 Contributors	Top 5 Detractors	Top 5 Active Holdings
Bellevue Gold	Bapcor	EQT Holdings
Gold Road Resources	Champion Iron*	Kelsian Group
Kelsian Group	Credit Corp Group	Johns Lyng Group
Ramelius Resources	Pinnacle Investment Management	NRW Holdings
Trajan Group Holdings	Telix Pharmaceuticals	Seven Group Holdings

^ Alphabetical order. * Denotes stock not held. Attribution is for the 1 month ending 31st October 2023. Top 5 positions are effective 31st October 2023.